

In the Matter of Northern States Power
Company's Request to Refund Money
Received from Northern Natural Gas
Company

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ORDER PRESCRIBING REFUND
METHOD

PROCEDURAL HISTORY

On July 20, 1987, Northern States Power Company (NSP or the Company) filed with the Minnesota Public Utilities Commission (the Commission) a request to refund to its customers approximately \$3.3 million which it received from its supplier, Northern Natural Gas Company.

In its Report of Investigation and Recommendation, dated August 5, 1987, the Minnesota Department of Public Service (the Department) recommended that the Commission reject NSP's refund plan and require the Company to submit a new refund filing based on an alternate procedure.

In letters dated August 17, 1987, and August 26, 1987, NSP presented two refund proposals which, it said, would respond to the concerns of the DPS.

On September 9, 1987, the DPS sent a letter to the Commission recommending that all of NSP's refund proposals be rejected and that the Company be required to submit a new plan within 15 days.

On September 14, 1987, NSP submitted a letter to the Commission, urging the Commission to expeditiously approve one of the Company's three refund proposals.

FINDINGS AND CONCLUSIONS

The primary issue for Commission resolution is the determination of the appropriate method of returning to customers money refunded by NSP's pipeline supplier, Northern Natural Gas Company.

The question thus becomes: How should refund amounts be divided among customers within classes for which individual billing data for the period covered by the refund no longer exists?

NSP initially proposed that each class's consumption over the next 12 months be estimated and that a factor be calculated which would match the class refund amount with the 12-month volume. Each bill rendered over the next 12 months would then include a credit determined by multiplying the refund factor by the billed consumption.

The DPS proposed that NSP determine each customer's proportion of the total class usage during the most recent past 12-month period. The refund allocable to the class would then be multiplied by this fraction, and the result would be credited on each customer's next natural gas bill.

NSP then proposed to estimate class usage in each of two months, and pass back 90% of the refund in the first of these, and the remaining 10% during the second month. Finally, NSP proposed to estimate and return the refund during a three-month period (October through December).

The Commission finds that there are two fundamental differences in the way outcomes are determined between the DPS proposal and each of NSP's proposals. First, the two parties differ in how the refund amount to individual customers would be determined. Second, they differ in whether any unrefunded amounts (or over-refunded amounts) would remain at the end of the refund period. The Commission also finds that the cost of implementation is likely to be significantly greater in the DPS proposal than in any of NSP's proposals.

The Commission finds that there is no perfectly equitable way to distribute these refunds among classes for which consumption data no longer exist. Both NSP and the DPS urged adoption of a method in which some period's consumption serves as a proxy for actual consumption during the period giving rise to the refund. Because gas consumption varies significantly from one month to another, given the changes in the weather, the Commission finds that consumption over a 12-month period is more likely to reflect "normal" consumption which might have occurred over the five years than the consumption in two or three months. NSP argued here that the three month period it chose would closely approximate annual consumption patterns. The Commission finds that, while this may well be true for the class as a whole, individual customers may find that their consumption during the period is significantly different from their annual consumption patterns. Moreover, NSP's argument may be restated by saying that this particular 3-month period is a good proxy for a 12-month period, which is a good proxy for actual use during the five years. Given that the Commission cannot fashion a fully equitable return of this money to the actual consumers at the time of the overcharge, it is more uncomfortable than it might otherwise be at using a three-month period to approximate a 12-month period.

The Commission also finds that the DPS method should result in a return of the precise refund amount, due to the determination of the refund based upon known consumption amounts. In

Precision has its cost, and NSP made the point that the DPS method would be more expensive. This is because considerably more computer and computer programming time is necessary to determine actual consumption over a historical period than to estimate total class consumption for an upcoming period. NSP estimated the cost of implementing the DPS method to be from \$25,000 to \$50,000.

The Commission has weighed the merits of each point of view, and finds that it prefers a greater attempt to assure equity than was proposed by the Company. The Commission concludes that the refund should be made on the basis of actual historical consumption during a 12-month period. The Commission finds that it is less important which 12-month period is chosen than that no shorter period be used. The Commission will direct, therefore, that NSP and the DPS evaluate and implement a refund program that uses a 12-month historical period as soon as possible. The Commission will direct, further, that the method chosen be as efficient, from the standpoint of cost of implementation, as possible.

individual customers are determined on the basis of actual usage during a 12-month historical period. The refund plan shall attempt, to the greatest extent possible, to minimize the cost of implementation.

2. NSP and the DPS shall implement the plan and report on its implementation within 20 days of the service date of this Order.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

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